

APPROVED FOR RELEASE: 2007/02/08: CIA-RDP82-00850R000200080017-3

7 MAY 1980

(FOUO 1/80)

RELAT 5

1 OF 1

FOR OFFICIAL USE ONLY

JPRS L/9080

7 May 1980

USSR Report

INTERNATIONAL ECONOMIC RELATIONS

(FOUO 1/80)



FOREIGN BROADCAST INFORMATION SERVICE

FOR OFFICIAL USE ONLY

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

For further information on report content
call (703) 351-2938 (economic); 3468
(political, sociological, military); 2726
(life sciences); 2725 (physical sciences).

COPYRIGHT LAWS AND REGULATIONS GOVERNING OWNERSHIP OF
MATERIALS REPRODUCED HEREIN REQUIRE THAT DISSEMINATION
OF THIS PUBLICATION BE RESTRICTED FOR OFFICIAL USE ONLY.

FOR OFFICIAL USE ONLY

JPRS L/9080

7 May 1980

USSR REPORT
INTERNATIONAL ECONOMIC RELATIONS

(FOUO 1/80)

CONTENTS

TRADE WITH INDUSTRIALIZED COUNTRIES

Foreign Economic Relations Need New Efficiency Indicators
(V. Savost'yanov; VOPROSY EKONOMIKI, Dec 79) 1

USSR-CEMA TRADE

Development of Cooperation Between Socialist, Developing
Countries
(G. Prokhorov; VOPROSY EKONOMIKI, Nov 79) 14

TRADE WITH LDC'S

Long-Term Coordination of CEMA's Reciprocal Trade
(K. Ligay, L. Fokina; VOPROSY EKONOMIKI, Dec 79) 28

- a - [III - USSR - 38a FOUO]

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

TRADE WITH INDUSTRIALIZED COUNTRIES

FOREIGN ECONOMIC RELATIONS NEED NEW EFFICIENCY INDICATORS

Moscow VOPROSY EKONOMIKI in Russian No 12, Dec 79 pp 61-69

[Article by V. Savost'yanov: "Substantiation of Methods of Calculating the Efficiency of Foreign Economic Relations"]

[Text] The role of foreign economic relations, which reflect countries' participation in the international division of labor, is increasing continuously at the present time. "A particular feature of our time," L. I. Brezhnev emphasized at the 25th CPSU Congress, "is the growing use of the international division of labor for the development of each country, irrespective of its resources and the economic level it has reached. Like other states, we aspire to take advantage of the benefits afforded by foreign economic relations to mobilize additional possibilities for the successful accomplishment of economic tasks and to gain time and to increase production efficiency and accelerate the progress of science and technology."

In addition to the sharp increase in the scale of international trade, the development of production worldwide has summoned into being new forms of foreign economic relations between countries. Industrial cooperation--international intrasectorial specialization and cooperation, consultation and the granting of credit for the construction of industrial projects, the sale of licenses for production and engineering innovations, the use of manpower and others--is being perfected. Scientific-technical cooperation is expanding. Here, L. I. Brezhnev observed at the CPSU Central Committee October (1976) Plenum, "the more extensively we develop foreign economic relations, the more important the question of their efficiency becomes."

Our party's policy of the intensification of the country's economy, which was adopted in the latter half of the 1960's, is responsible for the increased attention paid to problems of the efficiency of foreign economic relations. The USSR Gosplan approved the "Vremennaya metodika opredeleniya ekonomicheskoy effektivnosti vneshney torgovli" [Provisional Methods of Determining the Economic Efficiency of Foreign Trade] in 1968. But it became clear in subsequent years that a broader system of methods embracing all forms of the USSR's foreign economic relations was needed. Certain fundamental

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

shortcomings of the "Provisional Methods," particularly after the approval in 1969 by the USSR Gosplan, USSR Gosstroy and USSR Academy of Sciences of the "Tipovaya metodika opredeleniya ekonomicheskoy effektivnosti kapitalnykh vlozheniy" [Standard Methods of Determining the Economic Efficiency of Capital Investments], also came to light. The latter essentially also conditioned the main principles of the calculation of the efficiency of the capital investments connected with foreign economic relations for "it contains basic regulations which are binding on all sectors of the national economy."¹

In the first half of the 1970's a specially created interdepartmental commission formulated two draft systems of methods of determining the economic efficiency of foreign economic relations. One of them was circulated for discussion to the departments concerned in 1978. But, in our view, it retains the shortcomings of the "Provisional Methods." Moreover, the proposed methods of evaluating the efficiency of foreign economic cooperation in the creation of industrial facilities in the USSR are dubious. Amplification of the "Vremennyye metodicheskiye ukazaniya dlya rascheta ekonomicheskoy effektivnosti spetsializatsii i kooperirovaniya proizvodstva so stranami-chlenami SEV" [Provisional Procedural Guidelines for Calculating the Economic Efficiency of Production Specialization and Cooperation with the CEMA Countries], which was approved in 1973 by the USSR State Committee for Prices, the USSR Gosplan and the USSR Academy of Sciences, is also essential. It should be borne in mind here that there has been a development not only of foreign economic relations but also of economic science, with which the methods of the formation of these relations and the evaluation of their efficiency are optimized and the economic source data employed for the calculations are perfected. Consequently, the methods of economic calculations should be amplified periodically.

The main problem of the methods of determining the efficiency of foreign economic relations, including foreign trade, is the choice of evaluation criteria. The majority of economists of the socialist countries agrees that the main criterion of the economic efficiency of the international socialist division of labor is labor productivity growth² or the saving³ on social labor. These broad criteria may be expressed as indicators of the increase in national income⁴ and, partially, of profit. But they may differ appreciably since the evaluation of the expenditure and result of social labor will differ. In fact the increase in national income created as a result of social reproduction should be evaluated according to its physical volume. "...Identical labor," K. Marr wrote, "in equal intervals of time will always create values of equal magnitude, however its production force may change. But it delivers under these conditions in equal intervals of time different quantities of use value...."⁵

At the same time it should be taken into consideration that "no value is produced in the process of circulation and, for this reason, no surplus value."⁶ However, this fact does not diminish the role of the system of foreign economic relations in procuring an increase in national income since

FOR OFFICIAL USE ONLY

the negotiation of contract prices, which fluctuate around the international value of the goods and services, depends on the workers of this system. To a certain extent they form the commodity structure and geographical direction of foreign trade and also the structure of other types of foreign economic relations.

The particular feature of the calculation of the efficiency of foreign economic relations on the basis of the increase in national income as distinct from its calculation from profit is the fact that the former also takes account of wages. The amount of the latter is higher, the higher the grading of the labor utilized in production for export. Thus with the increase in the grading of labor and wages there is a simultaneous growth in the proceeds from the commodities and the expenditure on their production with the amount of profit remaining constant.

Over an identical interval of time skilled labor creates greater value than unskilled labor and makes it possible, all other conditions being equal, to acquire more use value on the world market by means of buying and selling. Consequently, given the tendency on the world markets toward an equalization of the profit norm for the production sector, it is more advantageous for each country in calculating efficiency from national income to export finished high-quality, science-intensive and other commodities created by skilled labor. But the increase in national income includes only the amount of wages recognized on the world market (through the commodity's international value). "...The degree of expertise of the present population," Marx observed, "is...the principal accumulation of wealth and the most important preserved result of preceding labor, which exists, however, in the most live labor."⁷

The complexity of labor is determined both by the level of education of the workers and the employed equipment, technology, scientific research and others. This is reflected in the quality, complexity and science-intensiveness of the goods. When a country exports low-quality goods, equipment of obsolete design, poorly graded raw material of increased moisture content and dirtiness which had not been properly packed and so forth, it loses foreign currency earnings and in amounts, moreover, greater than the amount of expenditure on the removal of such shortcomings. "Calculations show," A. N. Kosygin said at the 30th CEMA Session, "that the efficiency of capital investments which go on an increase in product quality is approximately twice as high as the efficiency of expenditure on an increase in the production volume of regular-quality products."

In practice it is extremely difficult to calculate the increase in the national income obtained from foreign trade and other forms of foreign economic relations. For this reason the methods of evaluating efficiency employed in our country are based on the indicator of profit compute as the difference between or correlation of proceeds from the sale of a commodity (or services) and expenditure on its production (or provision). Thus the "Metodicheskiye ukazaniya k razrabotke gosudarstvennykh planov razvitiya narodnogo khozyaystva SSSR" [Procedural Guidelines for the Formulation of

FOR OFFICIAL USE ONLY

State Plans of the Development of the USSR National Economy] say: "The national economic efficiency of foreign trade is determined by contrasting expenditure on the production of commodities for export with the expenditure which the country would have had to incur if imported commodities purchased with the foreign currency earnings from exports had been produced in the country and not imported."⁸ This means that the efficiency of foreign trade (and other forms of foreign economic relations) is evaluated in the USSR on the basis of the principle of cost comparison.

Under the conditions of socialism the production structure is determined by national economy requirements. In the organization of production account is also taken of its future efficiency, and the direction of development is determined by the plan and not the market. This spares the country the pernicious influence of the chaos of the world capitalist market. At the same time control over the current efficiency of export and import transactions insures the most rational use of available resources. The plans of the USSR's participation in the international division of labor determine the foreign trade structure. The fundamental distinction between socialist production relations and capitalist relations determines the fundamentally different content of the methods of comparing the production costs forming a rational structure of foreign trade and other forms of foreign economic relations of the socialist and capitalist countries.

In the practical use of indicators of the efficiency of foreign economic relations computed from profit it has to be considered that there exists on world markets, albeit with a number of qualifications, a tendency toward equalization of the profit norm. Consequently, it is impossible to claim on the basis of these efficiency indicators the great advantageousness of production for export in sectors utilizing complex labor compared with the sectors utilizing predominantly uncomplicated labor. This also applies to the correlations of production efficiency in the raw material and processing sectors of the economy. Consequently, it is essential to supplement a comparison of the efficiency of foreign trade transactions computed from profit with an evaluation of the efficiency of foreign trade relations on the basis of an increase in the national income. The deviation of indicators of the efficiency of exports and imports of specific commodities from a given average level thereof is a consequence of the differences in the conditions of their production in our country compared with the average world conditions determining world prices. By production conditions we understand here natural, organizational, technical and other factors.

In practical calculations of the efficiency of different variants of the commodity structure of Soviet exports and imports computed both from wholesale prices current in the USSR and from estimated indicators of expenditure (adduced expenditure) it turns out that exports of raw materials are more efficient than exports of finished products, which contradicts the principles of calculation from profit and from the increase in national income set forth above. In general form this problem was expounded at the 25th CPSU Congress thus: "Calculations show that various types of raw material will remain a

FOR OFFICIAL USE ONLY

substantial export item of ours. Thus it is all the more important to increase the proportion of the most profitable raw materials and insure the more extensive processing of the raw material for sale. Together with this, it is essential to considerably increase the proportion of processing industry products in exports."

The correctness of the recommendations ensuing from efficiency evaluations depends to a considerable extent on the accuracy of the evaluations of the expenditure of social reproduction. Furthermore, it should be borne in mind that "labor is not the sole source of the use values and material wealth which it produces."⁹ This applies primarily to the natural resources utilized in production.

Payments of rent exist in international trade. "Whatever the specific form of rent," Marx wrote, "the fact that the appropriation of rent is an economic form in which ownership of land is realized and that ground rent, in turn, presupposes land ownership...is common to all types of rent."¹⁰ In sum, one type of national wealth--natural resources--becomes, through rental income another type--increase in national income. And, conversely, proportionate to the depletion of its resources or lacking them, a country is forced to acquire raw material commodities abroad from national income. Ultimately, comparison of existing rental income from the sale of raw materials with future analogous expenditure on their acquisition makes it possible to determine the expediency, time and amounts of the extraction of national natural resources for export.

Consideration in a country's expenditure of the international differential ground and mining rent (value of natural resources) would make it possible to render comparable the indicators of the efficiency of export commodities created in the course of a varying degree of processing of the raw material. This trend toward the equalization of efficiency indicators could occur as the result of an increase in overall expenditure in the extractive sectors and, to a lesser extent, in the processing sectors. An adequate approach to various commodities will also be insured to a certain extent in the comparison of export and import efficiency indicators. Such comparability is possible under the conditions of the existence on the world market of the above-mentioned trend toward equalization of the profit norm between production sectors and their subsectors, to which attention was drawn by Marx: "...Equivalent amounts of capital yield equivalent profits or the profit norms for all amounts of capital are equal, whatever their magnitude and their organic structure."¹¹

Under the conditions of socialism the profit norm is not equalized on the basis of competition. It is regulated by the directive establishment of charges for the use of production capital. In the USSR and a number of other socialist countries these are currently at the one level of the national economy of 6 percent. Furthermore, there is a certain interchangeability of production processes in the organization of production for export.

FOR OFFICIAL USE ONLY

For this reason the choice of the commodity structure of Soviet exports is based to a certain extent on the comparison of the profit from capital investments.

Proceeding from this common approach to production profitability in the USSR, the formula of the calculation of adduced expenditure¹² on the basis of a coefficient of the recovery of capital investments equal to 0.15 unified for the national economy was proposed for the "Provisional Methods of Determining the Economic Efficiency of Foreign Trade." But this case failed to take into consideration the method of the formation of profit employed in the system of the economic stimulation of production. Profit computed on the basis of the recovery of capital investments in production capital consists, as is known, of resources going to the state budget and resources used to create three enterprise stimulation funds.

The magnitude of the norms of the additional sum of the material stimulation (payment of bonuses) and social-cultural measures and housing funds is determined on the basis of the base norm for the annual wage fund. Stimulation funds are even created at enterprises planned to operate at a loss. Attention was drawn to this fact back in the first years of Soviet power: "The extent of the equipment, the degree of wear of the machinery, the high-quality of the raw material and other factors should be taken into account to prevent reasons beyond the control of the worker himself influencing the status of his wage."¹³ Although conditioned by the value of the production capital, the production-development fund is intended to supplement the depreciation allowance fund, that is, it is a part of the cost of production.

Thus the total of differentiated deductions in respect of enterprise production capital and payments into the state budget cannot be expressed by an identical proportion in respect of the production capital. The artificial equalization of the profitability norm from gross profit gives a false magnitude of expenditure, and, as a result, capital-intensive commodities are of low efficiency for export, and labor-intensive commodities are more efficient; the introduction of new equipment in export production is inefficient.

Because of the erroneousness of the above formula of adduced expenditure current wholesale prices are more often used in practice. In the absence of approved prices for some commodity or other and also when comparing production variants and checking current prices in the USSR it is also necessary to use an estimated expenditure magnitude computed in accordance with the formula recommended by the "Standard Methods of Determining the Economic Efficiency of Capital Investments," that is, with the coefficient of the recovery of production capital differentiated by sector. This estimated magnitude should evidently be determined by proceeding from current price-forming principles. Only thus is it possible to avoid contradictions between the plan recommendations and the financially autonomous interests of the executants of the plans.

FOR OFFICIAL USE ONLY

Enterprise gross profit is distributed between the state budget and the stimulation funds in the proportion of 57:43 on average.¹⁴ Then with an average normative gross profitability equal to 15 percent "net" profitability from the viewpoint of the state budget constitutes approximately 8 percent (including 6 percent in charges for the use of production capital). This norm also conforms to the discounting norm adopted by the "Standard Methods of Determining the Economic Efficiency of Capital Investments." As distinct from the latter, the "Provisional Methods" recommend the use of the coefficient of computation of the time factor (discount) at the level of its recommended norm of the recovery of capital investments--0.15--unified for the national economy. Yet the discounting coefficient essentially characterizes the increase in the value of the production capital thanks to profit, that is, takes account of the profit from the profit employed in production. However, since the USSR's production capital has increased by approximately 8 percent annually.

The inconsistency of the proposed norms was increased as a result of the approval in 1977 by the USSR Council of Ministers State Committee for Science and Technology, the USSR Gosplan, the USSR Academy of Sciences and the State Committee for Inventions and Discoveries of the "Methods (Basic Provisions) of Determining the Economic Efficiency of the Use of New Equipment, Inventions and Production-Efficiency Proposals in the National Economy."¹⁵ Basically it could have been useful in evaluating the efficiency of imports of machinery and equipment with no analogues in the USSR, but it recommends a coefficient of the recovery of capital investments at a level of 15 percent and a discount of 10 percent. This leads to discrepancies in the recommendations for the development of foreign economic relations.

The problem of the indirect effect of foreign economic relations, particularly their influence on elements of expenditure and on energy and material consumption and capital and labor intensiveness, remains unsolved. Thus an increase in the relative capital requirement of Soviet exports is sometimes regarded as a negative phenomenon. An increase in the country's production efficiency by means of a decrease in each element of a commodity's cost is one thing, but foreign trade, in whose sphere occurs merely their reciprocal equivalent exchange without an overall growth in the cost of the expenditure, is another.

Something similar occurs in individual cases inside the country also. Thus machines are gradually replacing manual labor in production. Equipment is making it possible to increase labor productivity and augment the saving of live labor expended in the final processing stage. For example, agriculture is changing from being labor intensive to being capital intensive as its mechanization proceeds. For this reason it would be incorrect to regulate the labor intensiveness and capital intensiveness of the production of individual commodities in the country by changing the commodity structure of foreign trade--increasing or reducing exports of capital-intensive and labor-intensive commodities. Although it increases the relative capital requirement (resource-output ratio) of exports, the mechanization of labor at the same time increases their efficiency for "on the world market more productive national labor is taken into account also as more intensive...."¹⁶

FOR OFFICIAL USE ONLY

A reduction in the deficiency in capital investments as a result of foreign credit is sometimes termed another indirect effect of foreign economic relations. But, in our view, this effect is only of a temporary nature. The subsequent repayment of this credit demands an increase in capital investments in production. Consequently, credit only changes the time of one's own investment in given projects.

Unfortunately, in the practice of calculations of the efficiency of the construction of enterprises on USSR territory with the use of foreign loan capital evaluation methods are encountered whereby the repayment of the debt incurred in respect of this credit is put in the category of current production expenditure.¹⁷ For example, S. Ponomarev writes: "The overall saving for the national economy through the development of cooperation on a compensation basis occurs primarily from economies in capital investments thanks to the substitution for a part of the once-only expenditure on the realization of industrial projects with current expenditure on the production of products for compensation...."¹⁸ The supporters of these calculations believe payment of the cost of the equipment imported on credit to be not capital investments but an increase in a product's prime costs. But in reality discharging the debt is merely using the profit derived from the operation of the project for capital investments in installment payments, which accelerates the debtors' production development. The cost of the utilized imported equipment cannot vary upon transfer of the right of ownership or upon the application of different forms of payment. Nor does this process influence the cost of the commodity, which takes shape, in particular, as the result of the carryover a proportion of the cost of the wearing out (depreciating) implements of labor, consumed raw material and others. And it is evidently mistaken to carry over the cost of these implements of labor to the cost of the product as its creditor is repaid.

In world practice debtors aspire to pay off their credit indebtedness through supplies of the debtor-enterprise's products. But this is no reason for thinking that the debtor's capital investments have become current expenditure. Current expenditure on goods supplied to a creditor to pay off the credit does not increase the cost of the remainder of this enterprise's products. In paying off a debt the debtor redeems the means of production procured on a credit basis, that is, makes capital investments from the current profit from their use.

Attempts are sometimes made to justify the summation of expenditure on the paying off of a debt with current expenditure on the production of commodity output also by the fact that in this case the sum total of credit is deducted from profit (the numerator of the fraction of the calculation of the efficiency indicator) with its simultaneous deduction from the value of the capital investments in the enterprise (the denominator of the fraction). But, in our view, this distorts the entire indicator (fraction), which loses its economic meaning and becomes uncomparable with the norms.

FOR OFFICIAL USE ONLY

Furthermore, the annual sums of the cancellation of the credit could in this case exceed the profit total. For this reason some of the above-mentioned economists (B. Vaynshteyn, R. Takhnenko, V. Savin) attempt to artificially increase it by waiving extra depreciation sums for means of production purchased on credit. The source of the covering of expenditure on the replacement of the means of production, the cost of which should be transferred to the cost of the commodity proportionate to their depreciation and not proportionate to the payment of the cost thereof to the seller, remains an open question here. When the depreciation period coincides with the period of repayment of the credit, the above-mentioned replacement does not distort the evaluation of the efficiency of a project's construction with the use of loan capital. But if the period of repayment of the debt is less than the depreciation period, the profit is less than its normative amount, and the transaction is deemed inefficient, and conversely. In this case all short-term credit must a priori be unprofitable, which contradicts reality.

In addition, the denominator of the above-mentioned fraction tends to zero (in "turnkey" construction, for example) proportionate to the growth of the proportion of credit in the capital investments. Correspondingly, the indicator of the efficiency of capital investments tends to an infinitely great magnitude, irrespective of the real efficiency of this project.

At the same time, for the fullness of the accounting of capital investments in production capital the methods of the calculation of their profitability may be split into two types: a calculation for the entire cost of the project, including the capital obtained on a credit basis, and a calculation for "in-house" capital investments, that is, without the cost of production capital acquired on a credit basis. Both types of the calculation of production profitability are legitimate, although they are of different economic import. An error occurs if the profit and the interest on the credit prove incommensurable with the cost of the means of production employed here. In an evaluation of the efficiency of capital investments profit, incorporating the interest on the credit, should be correlated with the entire value of the production capital, or profit, after the deduction of the interest on the credit, should be correlated with "in-house" capital investments, taking into account debts that have already been paid off.

The calculation methods that we have criticized are being employed in practice together with the, in our view, correct methods formulated by other Soviet economists: Z. Zencheva, V. Klykov, I. Motorin, O. Tybakov and others. The latter's proposals differ among themselves in details, but are sufficiently scientifically substantiated. The difference in the results of the calculations according to the methods which we criticize and which we support is comparatively small in the majority of facilities. This is explained by the fact that the proportion of the means of production acquired abroad on a credit basis in the total cost of these facilities is negligible, but the harm caused by the application of the methods criticized by us of calculating the efficiency of the construction of industrial facilities on USSR territory with the use of imported machinery, equipment and materials acquired on a credit basis is obvious.

FOR OFFICIAL USE ONLY

The methods of determining the efficiency of machinery and equipment imports, particularly the methods of their domestic evaluation in the USSR, is another major problem. The methods of determining the prices of new products applied in our country could be employed to determine domestic wholesale prices. But it should be considered here that there are frequently fundamentally new products in the imports which are not comparable with those produced in the USSR. In addition, the imported complete-set equipment of enterprises is evaluated on the world market as a whole. Breaking this equipment down into individual assemblies for comparison with domestic analogues is, first, laborious and, second, imprecise since frequently the main purpose of these imports is to procure new production technology provided by a certain combination of equipment. Its value in this case is determined by its "completeness" and not the sum of expenditure on the manufacture of individual machines for the enterprise being set up. Machinery and assemblies with different use value are manufactured with identical production expenditure, which is ultimately reflected in world prices also.

The proposition of use value on the capitalist market is primarily determined by the sum total of profit which can be secured by capital investments (primarily in machinery and equipment) since profit is the basic goal of capitalist production. For this reason the price of this equipment also is primarily conditioned by the capitalization of annual profit. "...Any definite monetary income," Marx wrote, "may be capitalized, that is, regarded as interest on imagined capital."¹⁹

The purpose of socialist social production is the maximum satisfaction of society's requirements, which can be secured under the conditions of the efficient running of the national economy. Consequently, the profitability of the employed equipment is a factor of satisfaction of the country's requirements. Yet insufficient consideration is given to the profitability of imported equipment in the practice of determining prices thereof. The main attention is paid to production capacity, while there could be manifold differences even in the profitability of equipment purchased in different countries.

It is of considerable importance to determine where the profit from imports should be realized: in the foreign trade organizations or at the industrial enterprises utilizing the purchased equipment. If it is realized at the enterprise, the domestic wholesale price for the equipment should be determined by the foreign trade expenditure on its importation. In this case the increased profitability of the enterprise which has imported equipment will yield it superprofits compared with analogous enterprises which do not have such equipment. Norms of fixed payments into the state budget which may be computed on the basis of the equipment's planned profitability must be established for its withdrawal. Then the foreign trade association acts as the agent, and the customs revenue from this importation is not transferred to the state budget.

If, however, the profit from highly profitable imports is realized in the foreign trade associations (with the corresponding responsibility for the

FOR OFFICIAL USE ONLY

level of efficiency of the imports), the wholesale price of the imported equipment in the USSR should be determined on the basis of the capitalization of the profit arising out of the use of this equipment. This enterprise's profitability will then (all other conditions being equal) be on a normative level.

The main difficulty of either of the two price-forming methods lies in the fact that the enterprise's actual profitability depends to a considerable extent on local conditions and is sometimes far removed from the planned level. Thus the planned number of works at enterprises with imported equipment is exceeded many times over in a number of cases. There are also contrary phenomena, when the imported equipment is not fully utilized owing to a manpower shortage for in many cases it is installed not in new but in modernized enterprises.

The urgency of a solution of the problem of evaluation of the efficiency of imported machinery and equipment is determined by the fact that they account for over one-third of Soviet imports²⁰ and one-third of total capital investments in machinery and equipment in our country.²¹ This is typical of industrially developed countries participating extensively in international industrial cooperation.

Difficulties exist in an evaluation of the efficiency of agreements on international production specialization and cooperation and, correspondingly, in the commodity structure of these agreements. Potential expenditure of domestic production and expenditure on imports of specialized products should be correlated in the organization of this form of the international division of labor.

But the sectorial enterprises determine their economic interests by production profitability according to domestic wholesale prices, without correlation with foreign trade prices. Consequently, the sectorial ministries are at present linking their own economic interests insufficiently with national economic interests and failing to make full use of the rights they have been granted to organize the intrasectorial international division of labor (with the creation of the corresponding foreign trade commodity turnover). The appropriate state departments' monitoring of the summary effect from each agreement individually predominates in practice.

A principal shortcoming of the formula of calculation of the effect of agreements²² is the fact that it is computed as the difference between summary expenditure on total exports and the summary evaluation of total imports as per the agreement (with an adjustment for the foreign currency balance). The factor of optimization of the commodity structure is not taken into account in this case, that is, the effect of each product individually is not evaluated. In addition, calculations are made in accordance with current wholesale prices.

The growth of the negative commodity turnover balance testifies to the inadequate linkage of departmental and national economic interests. Thus imports of machinery and equipment in the USSR's entire trade with the CEMA

FOR OFFICIAL USE ONLY

countries are 1.8 times in excess of exports thereof and up to 2.5 times as great as exports in accordance with agreements on intrasectorial production specialization and cooperation. The departments are displaying insufficient interest in the source which will cover this negative balance. Clauses of the export agreements are not fulfilled in a number of cases. True, the situation is better as regards imports mainly thanks to budget financing.

State monopoly of the country's foreign economic relations presupposes provision for the economic interests of the entire economy. The accomplishment of this task immediately demands an improvement in the methods of calculating the efficiency of the principal forms of these relations and, primarily, in their theoretical substantiation.

FOOTNOTES

1. "Standard Methods of Determining the Economic Efficiency of Capital Investments," Izdatel'stvo Ekonomika, 1969, p 3.
2. See "Osnovnyye printsipy mezhdunarodnogo sotsialisticheskogo razdeleniya truda" [Basic Principles of the International Socialist Division of Labor], Izdatel'stvo Ekonomika, 1964, p 22.
3. See O. K. Rybakov, "Ekonomicheskaya effektivnost' sotrudnichestva SSSR s sotsialisticheskimi stranami (teoreticheskiye i metodologicheskiye problemy)" [The Economic Efficiency of the USSR's Cooperation With the Socialist Countries (Theoretical and Methodological Problems)], Izdatel'stvo Mysl', 1975, p 5.
4. See "Standard Methods of Determining the Economic Efficiency of Capital Investments," p 5.
5. K. Marx and F. Engels, "Soch." [Words], vol 23, p 55.
6. Ibid., vol 25, pt I, p 306.
7. Ibid., vol 26, pt III, p 306.
8. "Procedural Guidelines for the Formulation of State Plans of the Development of the USSR National Economy," Izdatel'stvo Ekonomika, 1974, p 600.
9. K. Marx and F. Engels, "Works," vol 23, p 52.
10. Ibid., vol 25, pt II, p 183.
11. Ibid., vol 25, pt I, p 163.
12. $Z = S + 0.15 \cdot K$, where Z - adduced expenditure per unit of output, S - a product's prime production costs and K - the product's relative capital requirement.

FOR OFFICIAL USE ONLY

13. SOBRANIYE UZAKONENIY I RASPORYAZHENIY RABOCHEGO I KREST'YANSKOGO PRAVITEL'STVA No 67, 1921, p 514.
14. See "Narodnoye khozyaystvo SSSR 1978" [The USSR National Economy in 1978], Izdatel'stvo Statistika, 1979, p 516.
15. See EKONOMICHESKAYA GAZETA No 10, 1977, pp 11-14.
16. K. Marx and F. Engels, "Works," vol 23, p 571.
17. See B. Vaynshteyn, R. Takhnenko, "Compensation Agreements and Questions of Efficiency" (MIROVAYA EKONOMIKA I MEZHDUNARODNYE OTNOSHENIYA No 5, 1974); S. N. Zakharov, "Raschety effektivnosti vneshneekonomicheskikh svyazey (Voprosy metodologii i metodika raschetov)" [Calculations of the Efficiency of Foreign Economic Relations (Questions of Methodology and the Calculation Procedure)], Izdatel'stvo Ekonomika, 1975; and V. Savin, "The Efficiency of Cooperation on a Compensation Basis" (VNESHNYAYA TORGOVLYA No 5, 1977).
18. VNESHNYAYA TORGOVLYA No 4, 1978, p 28.
19. K. Marx and F. Engels, "Works," vol 25, pt II, p 172.
20. See "Vneshnyaya trgovlya SSSR v 1978" [The USSR's Foreign Trade in 1978], Izdatel'stvo Statistika, 1979, p 33.
21. See Ibid.; and "The USSR National Economy in 1978," p 339.
22. See "Provisional Procedural Guidelines for Calculating the Economic Efficiency of Production Specialization and Cooperation With the CEMA Countries," Preyskurantizdat, 1973, p 4.

COPYRIGHT: Izdatel'stvo "Pravda", "Voprosy Ekonomiki", 1979

8850

CSO: 1823

FOR OFFICIAL USE ONLY

USSR-CEMA TRADE

DEVELOPMENT OF COOPERATION BETWEEN SOCIALIST, DEVELOPING COUNTRIES

Moscow VOPROSY EKONOMIKI in Russian No 11, Nov 79 pp 79-88

[Article by G. Prokhorov: "The CEMA Countries" Industrial Cooperation With the Developing States"]

[Text] In the system of the socialist community countries' foreign economic relations a special place is occupied by cooperation with the developing states, which, as the 25th CPSU Congress emphasized, "is facilitating the restructuring of their economies and social life along progressive lines." Having gained political independence, these countries have embarked on a new stage of development, whose main content is the consolidation of national independence, the achievement of economic self-sufficiency, the surmounting of inherited backwardness and the liquidation of archaic social structures. This very complicated and difficult task represents an entire complex of problems, including the industrialization, modernization and provision of other sectors of the economy with equipment, creating employment and raising the living standard of broad strata of the population, all of which are in the forefront. The CEMA countries are contributing to the best of their ability to the solution of these problems through various forms of economic relations.

The further expansion and intensification of the CEMA countries' economic cooperation with the developing states appears possible primarily on the basis of an accelerated increase in the resources of competitive export commodities and services and the intensive introduction of new, more efficient forms of cooperation. Among the latter, industrial cooperation is acquiring increasing importance. It has long been recognized as a form of the unification of labor and relations between producers. However, in the system of international economic relations cooperation has become widespread only in the last two-three decades.

A generally accepted concept of international industrial cooperation has not yet evolved in economic theory and practice. Many economists¹ agree that the most important features of international industrial cooperation which mark it off from other forms of economic relations are the long-term nature (recurrence) of the economic relations and their directedness toward the

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

production of material wealth; and joint or technologically linked activity for the purpose of saving on expenditure, perfecting production and increasing labor productivity, the quality of manufactured products and production efficiency.

International industrial cooperation represents the long-term stable and joint or linked activity, based on the division of labor and economic interests, of partners of different countries in the sphere of material production, including the creation of production facilities, supplies of components, materials, units and parts, the transfer of technology, scientific research and development and other elements of production. Consequently, only economic and technical cooperation which incorporates the partners' long-term interaction in the organization and the running of production can be categorized as industrial cooperation.

The development of international industrial cooperation is largely determined by the level of production specialization, particularly its progressive forms (semifinished products, units and others) and is at the same time an important factor of its further extension. The modern scientific-technical revolution has become a powerful accelerator of international specialization and cooperation as an objective trend of the internationalization of industrial and economic life.

Among the prerequisites for the organization of industrial cooperation between the CEMA countries and the developing states we would primarily mention the complementariness of the economic resources and production facilities available in both groups of countries. The CEMA countries' industrial and scientific-technical potential insures the organization of production on a modern level in the majority of sectors; at the same time many developing countries not only possess large fuel and raw material reserves essential to the CEMA countries but also the resources of unemployed manpower and industrial capacities which are not being fully utilized. They have a high interest in dependable markets for their raw materials, intermediate products and, particularly, finished products. The differences in production conditions can be utilized by the partners to their mutual advantage.

In the last 20 years hundreds of modern enterprises have been built in the developing countries with the CEMA countries' assistance. The 3,958 facilities which have been built and which are under construction include approximately 180 machine-building and metal-working enterprises, more than 50 ferrous and nonferrous metallurgy enterprises and over 500 enterprises of light and food industry.² Many of them may become pilot (base) enterprises upon the organization of collaboration on a cooperative basis. The experience of the interaction of government bodies, firms and enterprises of the two groups of countries (of which relations between the USSR and India are a graphic example) in the process of economic and technical cooperation is facilitating the establishment of these relations considerably.

FOR OFFICIAL USE ONLY

An important condition contributing to the organization of cooperative relations between these two groups of countries is the planned nature of the national economy in the socialist countries and the presence of elements of planning in the state sector of the developing countries, which makes it possible to impart a purposeful nature to the cooperation and organize complementary production facilities and management structures. The policy and legislation of the socialist and many developing countries are free of restriction on foreign economic relations being conducted on a cooperative basis. Furthermore, the governments of a large number of developing countries consider this form of international cooperation the most acceptable.

Industrial cooperation is made attractive by the possibilities and advantages contained therein. It creates for the socialist countries dependability of the supply through imports from the developing countries of a number of essential commodities and expands the economically beneficial exports of machinery, capital equipment and industrial materials for whose production favorable conditions exist. Cooperation enables the developing countries--partners in the cooperation--to make fuller use of their natural and labor resources and production capacities, organize or expand the manufacture of products in demand on the domestic and foreign markets and also the training of their own specialists and skilled workers and to increase exports and the receipts therefrom thanks to supplies to the stable socialist market. Industrial cooperation helps these countries create development centers and production and economic complexes and modernize production and foreign economic relations.

In the sociopolitical plane the expansion of cooperation relations with the socialist countries could become an additional support for the developing countries in strengthening the positions of the state sector, in the struggle against the domination and diktat of foreign monopoly capital, in the formation of a more rational import and export structure and in the defense of their interests in the international arena. Thus the development of cooperation fully corresponds to the basic long-term interests of both groups of states.

At the same time there are also factors restraining the development of collaboration in the cooperative form. These are primarily the backwardness of the economy and the low level of production in many developing countries, which are, naturally, complicating cooperative relations, particularly in the processing sectors of industry. In addition, the predominance of foreign capital, primarily in the form of transnational and mixed companies, in the economies of many of these countries considerably narrows the sphere of cooperation for the socialist countries insofar as these companies appropriate and remove from further exchange with other countries a very large and most suitable part of the developing states' resources and industrial potential. For the CEMA countries the organization of such cooperation is connected not only with the allocation of additional material and financial resources but also with a certain risk in the event of a violation of the schedules and specifications of supplies on the part of the developing states.

FOR OFFICIAL USE ONLY

Industrial cooperation between the CEMA countries and the developing states is still at the initial stage. According to our estimates, which are based on UN publications and those of individual countries, over 300 cooperative agreements embracing many sectors of industry, agriculture and transportation have been concluded between the CEMA countries and the developing states. These include, according to UNCTAD data, more than 140 agreements on tripartite industrial cooperation with the participation of socialist, developing and developed capitalist countries.³ A considerable proportion of these agreements are of a cooperative nature. The CEMA countries' biggest partner is India, with which approximately 510 specialization and cooperation agreements have been signed.⁴

Cooperation is a new step forward along the path of the extension of equal and mutually beneficial economic cooperation. It is being organized between state organizations and enterprises of the socialist countries and predominantly state and mixed companies or firms of the developing countries. The CEMA countries' industrial cooperation with the developing states differs fundamentally in its aims and principles from cooperative relations within the framework of the world capitalist economy, which have become extremely widespread (approximately 4,900 cooperative agreements were signed in the period 1957-1976, for example, between firms of India and developed capitalist states).⁵

The economic sphere of the cooperation is determined primarily by the partners' interests and possibilities. Approximately one-half of the enterprises in the developing countries which cooperate to this extent or the other with the CEMA countries' foreign trade organizations and industrial enterprises are part of processing industry. The remainder are in the extractive sectors, the infrastructure and the services sphere. The production has been organized along cooperative lines in processing industry of, in particular, heavy machine-building and power station equipment and tractors and ball bearings in India (with the participation of the USSR),⁶ passenger cars in Colombia (Poland)⁷ and tractors in Burma (Czechoslovakia),⁸ power trucks and metal-cutting machine tools in Turkey (Bulgaria)⁹ and buses in Iraq (Hungary).¹⁰ In the extractive sectors the CEMA countries and the developing states are uniting their efforts on a cooperative basis in the construction of enterprises for the development of copper, tin, oil and natural gas, potash and phosphate deposits. Sea, rail and road shipments of export and import freight are the sphere of cooperation in transportation.¹¹

Cooperative relations are being established in various forms. The simplest of these--one of the partners supplying the other (or reciprocal supplies to one another) over a protracted period with parts, assemblies and units as components of the final products, which is sold by the producer himself--is employed, in particular, in the USSR's relations with India. Soviet organizations pass on production technology to their Indian partners in the cooperation and regularly supply components for the manufacture of products at machine-building plants in Ranchi, Durgapur and Hardwar.¹²

FOR OFFICIAL USE ONLY

Cooperation whereby the supplies of match-up products and certain material production components are paid for with counter supplies of products produced with their use or whereby, on the other hand, these products are sold jointly by the partners on the markets of third countries is a further development of this form.

The form of cooperation in which compensation agreements serve as the contractual-legal basis is employed extensively. The peculiarities and advantages of this form, it would seem to us, are that a more dependable source of the stable receipt of goods emerges for the socialist countries. The extraction and shipment of gas in Afghanistan and Iran, bauxite in Guinea and Turkey and phosphates in Morocco have been organized on this basis with the USSR's participation.¹³ Thus, in accordance with an agreement signed in March 1978, on main contractor terms Soviet organizations are carrying out a complex of operations in Morocco connected with the development of the [Me. sala] phosphorite deposits, including the construction of a mining enterprise with a capacity of up to 10 million tons of commercial ore a year. Some of it will be supplied to the Soviet Union to reimburse its expenditure and pay for its technical assistance in organizing the extraction.¹⁴ The enterprises being created in the developing countries along compensation lines are usually large-scale ones which cater fully for the contemporary level of industrial organization.

Cooperation along subcontract lines is also being developed during the construction in the developing countries of facilities on main contractor ("turnkey") terms. In this case the organization of socialist country which is acting as the main supplier (contractor) enlists organizations and firms of the country which is a partner in the cooperation as subcontractor (sub-supplier) to perform construction, installation and other industrial work or render consumer services. A foundry in Algeria, the Trans-Iranian gas pipeline and an oil refinery in Ethiopia, for example, were constructed on these terms with the assistance of Soviet organizations.¹⁵ Firms of third countries may also be the subcontractors. An example of this is the participation of Indian firms in the construction of a foundry in Turkey with the USSR's assistance.¹⁶ This form of relations affords subcontractor-firms from the developing countries an opportunity to make fuller use of their industrial capacities and manpower resources and also accumulate experience in the process of joint and coordinated work with organizations of the socialist country (main contractor).

There is also cooperation along production-contract lines. In this case the partner from the socialist country (client) entrusts the partner from the developing country (contractor) with producing the goods he needs according to his specification, with the client supplying the production documents, materials and components. The work is paid for in money or in kind. Cotton supplied by the Soviet "Eksportlen" Association, in particular, is processed in Indian factories on these terms.¹⁷ This enables the partner from the developing country (contractor) to expand or institute the production of finished products for delivery to the stable market of the

FOR OFFICIAL USE ONLY

socialist state (client), while the latter is guaranteed sources for obtaining the necessary goods supplementary to or in place of his own production, which is frequently attended by less favorable conditions and far greater expenditure.

The CEMA countries have recently begun to cooperate more with the developing states on joint- and mixed-ownership terms. As follows from statements of the developing countries' official and business circles, this form of co-operation is of great interest for them insofar as it stimulates the creation of modern enterprises, the manufacture of products conforming to the requirements of world standards, the adaptation and use of progressive experience and technology and exports to the markets of the capitalist countries. The Arusha Program for Collective Self-Reliance adopted by a conference of Group of 77 ministers in February 1979¹⁸ contains an appeal to the socialist states to encourage the developing countries' efforts to create mixed enterprises and participate in them.¹⁹

According to UNIDO data, there are more than 100 mixed enterprises in the developing countries in which the CEMA countries participate.²⁰ Of these, approximately 20 operate in machine building and metal working, 14 in construction, 12 in the mining industry, 11 in agriculture, 8 in fishing and 5 in forestry.²¹ The mixed enterprises in the mining industry are currently of the greatest significance in volume of activity. Thus approximately 30 mixed enterprises of an industrial nature, including more than 10 in the mining industry, have been created in the developing countries with the participation of Romanian organizations.²² These include enterprises for the development of nonferrous metal deposits in Zambia, Iran, Kenya, Liberia, Morocco, Peru and Tanzania; and for the development of oil deposits in Algeria, Venezuela and Ecuador. The mission of the mixed companies in the extractive sectors usually includes surveying and reconnaissance work and the organization of the extraction and enrichment of the ores. Enterprises in the processing sectors predominate for the other CEMA countries. Thus Bulgarian-Indian and Hungarian-Nigerian mixed companies are operating successfully in the medical industry.²³ The CEMA countries' share in the mixed enterprises is small, as a rule, and is contributed in the form of supplies of equipment and specialist services.

The activity of the mixed enterprises in the developing countries with the participation of the CEMA countries gives grounds for the conclusion that at the current stage this form of relations fully corresponds to the partners' possibilities and interests. At the same time it has become obvious that with mixed ownership there is an even greater increase in the demands made on the level of technical-economic substantiation of the enterprises, the quality of the equipment and technical services they provide and on the observance of delivery deadlines and current-basis efficiency in their activity. Even with the present comparatively little experience co-operative relations are already influencing collaboration between the socialist and developing countries. Thus, according to the estimates of Romanian economists, approximately 50 percent of Romania's commodity turnover with the developing countries in 1977 was connected to some extent or

FOR OFFICIAL USE ONLY

other with the activity of mixed and other enterprises on a cooperative basis and with scientific-technical cooperation.²⁴ Part of Soviet machinery and equipment exports to India is in the form of cooperation-agreement supplies of components, units and parts; the USSR has already been supplied with over 80 billion cubic meters of gas from Afghanistan and Iran in fulfillment of obligations arising from barter deals, and it is receiving bauxite from Guinea and alumina from Turkey.²⁵

The organization of the CEMA countries' extensive industrial cooperation with the developing states demands the interlinkage of production, financial, contract-legal and administrative-operational measures. At the current stage particular significance is attached to the allocation of resources of capital equipment, assemblies, units, parts and materials for supplies to enterprises operating and being newly set up in the developing countries on a cooperative basis. It is no less important to provide for the growing imports of products produced on the basis of cooperation. Cooperation could no longer be developed without the constant counterflow of such products. Whence arises the need to plan cooperative relations not only in physical terms--commodity flows in both directions--but also with respect to allocated financial, material and labor resources, bearing in mind that expenditure on cooperation is a specific form of capital investment in one's national economy for the manufacture of necessary products outside of the country and for imports thereof in many cases on economically more advantageous terms and with greater efficiency than when produced inside the country.

The linkage between actions for the development of industrial cooperation with the developing states and the extension of the community countries' socialist economic integration would also seem very important. This cooperation could assist the acceleration and economically more efficient solution of certain of the CEMA countries' problems, primarily the fuel-raw material problem. For this reason it would seem expedient when drawing up and implementing long-term specific programs of cooperation and other measures for the realization of the Comprehensive Program of Socialist Economic Integration to take into account the possibilities of the production and procurement by the CEMA countries of certain of the commodities they need through the organization and expansion of cooperative relations with the developing countries and to allocate the necessary material and financial resources for this. As far as scientific-technical potential is concerned, it is perfectly adequate in the CEMA countries for cooperation with the developing states. The task is primarily to direct it toward these ends to a greater extent.

The definite level of the international specialization of production in the partner-countries is a very substantial factor of the organization of collaboration on a cooperative basis. Whereas at the initial stage cooperative relations may be organized predominantly through the rational utilization of the partners' already evolved participation in the international division of labor and their specialization in the production and

FOR OFFICIAL USE ONLY

supply to the world market of this product or the other, it subsequently becomes necessary to shape a new specific-purpose specialization conforming to the greatest extent to the interests and requirements of the partners in international specialization. Specialization also acts as a prerequisite and consequence of international cooperation. The main thing, obviously, is to insure that specialization and cooperation become an effective means of an increase in the manufacture of products of mutual interest and of an increase in labor productivity and product quality and also production efficiency.

The practice of cooperative relations with the developing countries provides convincing evidence that cooperation is organized more rapidly, reliably and economically advantageously with relatively developed partners. The most important criterion in the selection of the subjects and forms of collaboration on a cooperative basis, evidently, is conditions for the production and stable imports of the necessary products with expenditure less or, at the most, no higher than world prices and mutual advantage for each participant. Particular significance is attached to the development of industrial cooperation with the young states of a socialist orientation and with progressive regimes which aspire to an extension of cooperation and rapprochement with the countries of the socialist community and which are waging an active struggle against the domination of foreign monopolies and the policy of neocolonialism. The development of industrial cooperation is a form of effective support of these forces of national liberation.

Specific interests of an economic and political nature predetermine the interest of the CEMA countries and, primarily, the USSR in extensive industrial cooperation with adjacent developing countries (neighbors, those with a common border and those situated nearby). Some of them have a higher industrial and scientific-technical potential among countries of the Asian and African regions.

The level of trading and cooperation which has been attained in the creation of the developing countries' industrial infrastructure is an important factor of the formation of cooperative relations. At the same time the CEMA countries' cooperative relations with individual developing states largely depends on current legislation in these countries and the rules of law, customs and foreign-exchange rules and the mechanism of national economy management. It is perfectly obvious that industrial cooperation, all other conditions being favorable, may be developed more successfully with those states whose administrative organs and economic mechanism are geared toward promoting its organization and intensification.

The principles of the approach to be adopted in choice of organization (firm) of the developing country as a cooperation partner of a foreign trade association of the CEMA countries would appear to be more definite. Taking international practice as a basis, preference may be given a firm which already has the capacity and personnel for the organization or expansion of the production of the necessary goods with the participation and

FOR OFFICIAL USE ONLY

assistance of the socialist state. Certain firms have the customary extensive commercial relations and their own clientele. The question of the sector of the economy to which the immediate partner (organization or firm) of the developing countries should belong has already been decided by established practice in favor of the state sector.

It might happen that in the organization of the cooperation the interests of the partner-countries do not coincide. A mutually acceptable solution is possible here primarily given the creation on a cooperative basis of industrial complexes embracing different stages of the production process, from the prospecting for and extraction of the raw material through the manufacture on the basis thereof of a finished product of interest to the socialist and developing countries. The application of the principle of the CEMA countries' several participation in an enterprise's product at various stages of production is perfectly justified, and this gives them a right to procure part of the extracted raw material and the semifinished and finished products produced therefrom stipulated by an agreement. This shared participation could be identical or differentiated according to processing stage. The same principle is also perfectly applicable to agrarian-industrial complexes and also to enterprises for the procurement and processing of timber and for fishing.

There are big opportunities for the development of cooperative relations in the sectors of processing industry. Despite all the differences in the conditions of cooperation with individual developing countries, it is evidently possible to highlight three most important criteria which may serve as a reference point in the selection of the subjects of collaboration on the basis of cooperation in the processing sectors: the CEMA countries' need for the products scheduled for manufacture or the possibility of sales thereof on the markets of the partner of third countries; the availability of local raw materials which may be procured at prices no higher than world prices; and the level of expenditure of live labor per unit of output.

An improvement in the forms of cooperative relations presupposes the more intensive and efficient utilization of the forms of cooperation which have already evolved and which have fully justified themselves in practice and the introduction of new forms of these relations which have been verified in the practice of international economic relations. Cooperation on the basis of license agreements, scientific-technical and production-engineering cooperation and cooperation in rendering assistance to third countries should be put in the category of the latter. The considerable differences of the developing countries (in the level of production and its structure and in raw material and manpower resources also presuppose the need for a differentiated approach in the selection of rational forms of cooperative relations with reference to the specific conditions of individual countries.

There is an even further increase in the role of personnel training and its interconnection with industrial cooperation. The need arises for the

FOR OFFICIAL USE ONLY

training primarily of those needed by production and those who will instruct the industrial personnel. The training of skilled personnel, it seems to us, is becoming an inalienable part of the CEMA countries' activity to develop cooperation with the developing countries. The training in the CEMA countries of specialists who have a sound knowledge not only of the technical but also the commercial side of enterprise activity under the specific conditions of the developing country-partners deserves particular attention here.

Different forms of industrial cooperation are being employed as yet mainly in bilateral relations between the CEMA countries and the developing states. Only the first steps have been taken in multilateral cooperation, and there is essentially no experience of industrial cooperation as yet, although perfectly practicable prerequisites for this exist. With consideration of world experience it may be expected that both those forms of industrial cooperation which are already being employed or which are being developed in bilateral relations and also specific forms reflecting the conditions and possibilities of multilateral cooperation will be employed in such cooperation.

Multilateral cooperation may evolve directly between several interested socialist and developing countries and also between economic and management organizations and associations of these and other countries. Thus it will rely on a broader foundation--the industrial and scientific-technical potential of a number of partner-countries, which will form additional export possibilities in supplies of equipment, materials, assemblies, parts and other components within the framework of contractual cooperation commitments and expand the market for the sale of the products produced on a co-operative basis.

The CEMA countries' cooperation with a number of Asian and Latin American countries with a higher level of industrial and scientific-technical potential would seem advisable in the planning and construction of industrial and other facilities and in the organization of their normal operation in third, mainly less developed, countries. This cooperation will make it possible to make fuller and more rational use of the complementariness of the partner-countries' resources and potential.

The following could be the objects and content of multilateral cooperation: participation in maintaining or expanding production at operating enterprises in the developing countries to obtain their products; participation in the creation of new enterprises and the organization of the production of products of interest to the partners; joint activity for the construction of enterprises to produce products to be sold on the market of the partners or third countries; the creation for this same purpose of mixed companies of an industrial-trading nature; and the unification of efforts to ship export-import cargoes in relations with the developing countries.

Bilateral cooperation will evidently be supplemented by multilateral cooperation in the very near future. For this reason the degree of development

FOR OFFICIAL USE ONLY

with individual countries of bilateral economic cooperation is becoming an important condition for the development of relations on a multilateral basis. It is perfectly understandable that the developing countries' economic and social orientation in domestic life and in foreign economic activity, an aspiration to rapprochement with the CEMA countries, the availability of natural and labor resources and the possibility of the interested CEMA countries obtaining goods on an economically acceptable basis are and will continue to be of paramount significance in deciding the question of choice of partner-country.

Through production cooperation on a multilateral basis the CEMA countries will be able, it seems to us, to render additional support to the progressive forces of the developing countries and contribute to the industrialization of these countries, the consolidation of the socialist orientation and the accomplishment of the tasks for the establishment of a new international economic order; increase economically advantageous exports of machinery, equipment and technical services to the markets of the developing countries and counterimports of the required commodities; and expand the volume of relations and enhance their stability and efficiency. The achievement of these goals will depend to a considerable extent on the progress made by the process of the development of multilateral cooperation.

Together with this, there is now an objective need for the coordination of the socialist community countries' actions in their economic relations with the developing countries. This could appreciably enhance the efficiency of the socialist states' efforts to render the developing countries assistance in the solution of their economic and social problems and in the achievement of the goals of a new international economic order. The CEMA countries' resolve to wage a struggle for the restructuring of international economic relations on a just and democratic basis and for the establishment of a new international economic order was confirmed in a decision of the 30th CEMA Session (July 1976) and in the Warsaw Pact declaration of 23 November 1978.

Underpinning industrial cooperation between the CEMA countries and the developing countries with a firm contractual-legal basis is a decisive condition of its further development. It is being formed by the interconnected system of long-term intergovernmental agreements and contracts between firms and organizations of the partner-countries. The long-term program of collaboration and cooperation signed at an intergovernmental level (such a program was signed, for example, between the USSR and India in March 1979) will have a directing role in this system over the long term. The specific-target nature of such a program facilitates the achievement of the planned level of cooperative relations and economic cooperation as a whole. It could determine the directions, amounts and forms of cooperation. The term of an agreement on a cooperative basis should obviously be entirely adequate to fully recoup expenditure. With consideration of international practice a 10-15-year term of a cooperative agreement may be considered perfectly acceptable. Application of the program-goal method serves the expansion of cooperative relations with the developing countries and the strengthening of plan principles in this direction of the foreign economic activity of the socialist community countries.

FOR OFFICIAL USE ONLY

It is evidently advisable to determine the basic principles, directions and conditions of scientific-technical cooperation in intergovernmental agreements on cooperation in the sphere of production and in science and technology, while agreements on specific projects (questions) may also be concluded at a lower level.

To increase the interest of the CEMA countries' enterprises (associations) in cooperative relations with the developing countries it is advisable to enlist them in participation in this at all stages, from talks and the preparation of agreements through the distribution of the benefits from cooperative activity. Realization of a cooperation agreement depends not only on the adequacy of materials and labor and financial resources and organizational measures but also to a considerable extent on each participant's interest therein.

The further development of industrial cooperation between the CEMA countries and the developing states will be determined primarily by such long-term factors as the rate of growth of the economy and, correspondingly, of the industrial and foreign economic potential of the socialist countries and their partners and the degree of complementariness of the resources and production facilities of the two groups of countries; the depth of the division of labor and the volume of economic relations that has been reached between the partner-countries; the processes in socialist economic integration and the sociopolitical life of the developing countries; and the most important trends in international economic and political relations. The interests of the partner-countries and the trends of their economic relations in various forms of industrial cooperation will take shape in the interaction of these factors.

The 33d CEMA Session, which was held in June 1979, again confirmed the policy of the council's members of the development of equal, mutually beneficial cooperation with the developing countries. The CEMA session Declaration on the 30th Anniversary of CEMA observes that the CEMA countries "resolutely advocate the removal from world economic relations of the discrimination and inequality engendered by imperialist, colonial and neocolonial policy and will actively promote the struggle for the establishment of a new, just economic order."²⁶ As the session observed, CEMA will continue to develop relations of cooperation with third countries in the interests of an extension of the international division of labor on a just, equal and mutually beneficial basis. The CEMA countries will thereby make their contribution to the progressive restructuring of world economic relations. Industrial cooperation can and obviously will play an important part in extending the division of labor between the CEMA countries and the developing countries. The full use of the advantages contained in industrial cooperation and of the opportunities which exist for its development corresponds to the economic and political interests of the socialist and developing countries, the task of strengthening friendship between them and the alliance of the world socialist system with the progressive forces of national liberation.

FOR OFFICIAL USE ONLY

FOOTNOTES

1. See Yu. Shishkov, R. Novikov, "International Industrial Cooperation: Something New in the Internationalization of Economic Life" (MIROVAYA EKONOMIKA I MEZHDUNARODNYYE OTNOSHENIYA No 4, 1975); "Ekonomicheskiye svyazi Vostok-Zapad: problemy i vozmozhnosti" [East-West Economic Relations: Problems and Opportunities], Izdatel'stvo Mysl', 1976; Yu. M. Krasnov, "Ot konfrontatsii k sotrudnichestvu" [From Confrontation To Cooperation], Izdatel'stvo Mezhdunarodnyye otnosheniya, 1976; and others.
2. See "Sovet Ekonomicheskoy Vzaimopomoshchi: 30 let: [CEMA: 30 Years], Publication of the CEMA Secretariat, 1979, p 35; "SEV: mezhdunarodnoye znachenie sotsialisticheskoy integratsii" [CEMA: The International Significance of Socialist Integration], Izdatel'stvo Mezhdunarodnyye otnosheniya, 1979 pp 278-280.
3. "Tripartite Industrial Cooperation and Cooperation in Third Countries," Item 17--Supporting Paper, UNCTAD V, doc TD (243), supp 5, 20 April 1979, p 10.
4. FIGYELO, 14 June 1972.
5. "Statistical Outline of India 1978," Bombay 1978, p 117.
6. EKONOMICHESKAYA GAZETA No 8, 1977, p 22.
7. TRYBUNA LUDU, 8 April 1977.
8. CHEKHOSLOVATSKAYA VNESHNYAYA TOGOVLYA No 2, 1978, p 18.
9. BOLGARSKAYA VNEZHNYAYA TORGOVLYA No 6, 1976, p 26.
10. KULGAZDASAG No 7, 1978, p 7.
11. REVISTA ECONOMICA No 1, 1976, p 9; VNESHNYAYA TORGOVLYA No 2, 1979, pp 37-40.
12. See EKONOMICHESKAYA GAZETA No 8, 1977, p 22.
13. See PRAVDA, 11 March 1978; EKONOMICHESKAYA GAZETA No 14, 1979, pp 19-20.
14. VNESHNYAYA TOGOVLYA No 8, 1978, p 12.
15. "Production Contracts and Subcontracting in Economic Cooperation Between the USSR and Developing Countries," UNIDO doc., ID/WG 135/5, 26 Sep, 1972, pp 18-29.

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

16. See VNESHNYAYA TORGOVLYA No 6, 1979, p 11.
17. "Production Contracts and Subcontracting in Economic Cooperation Between the USSR and Developing Countries," p 15.
18. This group is made up of developing countries which have united on a common platform. There are now no longer just 77 but more than 100 of them. The common platform includes demands for a change in existing economic relations (within the framework of the world capitalist economy), an increase in the amount of aid to the developing countries on more favorable terms and other propositions. It is coordinated at conferences and meetings of the participant-countries; one such was held in Arusha (Tanzania).
19. "Arusha Programme for Collective Self-Reliance and Framework for Negotiations," UNCTAD doc. TD/236, 28 Feb, 1979, p 93.
20. "Industrial Cooperation Between Socialist Countries of Eastern Europe and Developing Countries," UNIDO doc. ID/WG 299/1, 2 May 1979, p 67.
21. Estimates made from press data of the CEMA countries.
22. See BIKI, 3 December 1977; RUMYNSKAYA VNESHNYAYA TORGOVLYA No 3, 1971, p 30.
23. "Industrial Cooperation Between Socialist Countries of Eastern Europe and Developing Countries," p 70.
24. See RUMYNSKIYE GORIZONTY No 1, 1978, pp 39-40.
25. See EKONOMICHESKAYA GAZETA No 14, 1979, p 20; statistical handbooks for 1970-1977.
26. See PRAVDA, 30 June 1979.

COPYRIGHT: Izdatel'stvo "Pravda", "Voprosy Ekonomiki", 1979

8850

CSO: 1823

FOR OFFICIAL USE ONLY

TRADE WITH LDC'S

LONG-TERM COORDINATION OF CEMA'S RECIPROCAL TRADE

Moscow VOPROSY EKONOMIKI in Russian No 12, Dec 79 pp 94-103

[Survey by K.Ligay, L.Fokina: "Structure of Trade Among the CEMA Countries"]

[Text] Trade among the CEMA countries, reflecting the results of their foreign economic activity, is an important factor of the economic development and the strengthening of the might and unity of the socialist countries and the consolidation of their positions in the world economy. "We see foreign economic relations," L. I. Brezhnev said at the 25th CPSU Congress, "as an efficient means promoting the accomplishment of both political and economic tasks. The might and cohesion of the community of socialist countries are being strengthened on the paths of economic integration."

The extension of the international socialist division of labor among the CEMA countries in the course of implementation of the Comprehensive Program of Socialist Integration has contributed primarily to an acceleration of the average annual rate of increase in their reciprocal trade (from 8.2 percent in the period 1966-1970 to 9.2 percent in the period 1971-1975). In the current five-year period, according to concluded trade agreements, commodity turnover among the community countries will have increased by an annual 8.5 percent. According to analysis data, its average annual rate of increase in the period 1976-1978 was on a par with the plan indicators, and the average annual increase in this same period was 12.8 percent in the prices of the corresponding years.

And the proportion of reciprocal trade in the fraternal countries' overall foreign trade turnover rose to 60 percent, this being achieved to a certain extent thanks to an improvement in its structure (see table 1).

FOR OFFICIAL USE ONLY

FOR OFFICIAL USE ONLY

Table 1: Structure of the CEMA Countries' Exports in Reciprocal Trade (except for Cuba; percentage)

	1950	1960	1970	1977
Total exports including:	100	100	100	100
machinery, equipment and means of transportation	20.5	31.7	39.7	43
fuel and mineral raw material	26.0	29.3	23.0	25.7
industrial consumer goods	7.4	10.6	13.0	10.4
food and gustatory commodities and raw material for their production	20.5	12.7	8.9	7.4

Sources: VNESHNYAYA TORGOVLYA No 4, 1979, p 3 and data of the CEMA countries' foreign trade statistical handbooks.

The galvanization of trade among the CEMA countries in the 1970's has led to its increased influence on economic growth, to which the increase in the elasticity coefficient (correlation of the average annual rate of increase in trade to the rate of increase in the national income) both in the community as a whole and in individual socialist countries (see table 2) testifies.

Table 2: Dynamics of the Correlation of the Average Annual Rate of Increase of the Reciprocal Trade and National Income of the CEMA Countries (in the prices of the corresponding years)

	CEMA as a whole	Bulgaria	Hungary	GDR	Mon-golia	Poland	Roman-ia	USSR	Czechoslovakia
1966-1970	1.12	1.23	1.28	1.74	0.67	1.71	0.99	0.99	0.83
1971-1975	2.10	2.61	2.35	1.78	2.13	1.63	1.08	2.54	2.31
1976-1978	2.25	2.20	2.41	2.47	2.39	2.30	1.62	2.75	2.70

Estimated from the following sources: "Statisticheskii yezhegodnik stran-chlenov Soveta Ekonomicheskoy Vzaimopomoshchi. 1978" [Statistical Yearbook of the CEMA Countries for 1978], Izdatel'stvo Statistika, 1978, p 325; and Narodnoye khozyaystvo stran-chlenov Soveta Ekonomicheskoy Vzaimopomoshchi" [The National Economy of the CEMA Countries]. Statistical collection, Moscow, 1979, pp 48-56, 265-267.

The impact of reciprocal trade on the reproduction process in the CEMA countries is increasing even further in connection with the implementation of the long-term specific-target cooperation programs (DTsPS) designed for the period up to 1990. The purpose of these programs, which were formulated in accordance with the decisions of the 20th and 30th CEMA sessions and adopted at the 32d and 33d CEMA sessions, is to provide by joint efforts for

FOR OFFICIAL USE ONLY

the countries' economically substantiated need for basic types of energy, fuel and raw material, an upsurge in machine building on the basis of the development of production specialization and cooperation, fuller satisfaction of the population's food and industrial consumer goods requirements and an acceleration of the development of transportation. The DTsPS represent a concretization of the measures and a further development of the Comprehensive Program of Socialist Economic Integration. Their fulfillment will be linked with the bilateral long-term programs of production specialization and cooperation between the community countries in the period up to 1990 which are being elaborated and with the coordination of the national economic plans for 1981-1985.

Thus conditions are being created for the first time in the CEMA countries' relations for the determination of the main "contours" and parameters of cooperation and trade for 10 and more years ahead. This, as experience shows, is important for insuring the steady growth of reciprocal commodity turnover on the basis of an improvement in its structure.

The socialist community countries will have to solve a number of problems in the process of implementation of the DTsPS which will be dealt with below in the examination of the development trends of the structure of trade among the CEMA countries.

Pride of place in the exchange is held by machinery and equipment (see table 1), which is conditioned by machine building's leading role in the industry of the fraternal countries and in their exports to CEMA's international market.

Table 3: Proportion of Machine-Building Products in Industry's Gross Output and in Exports to CEMA's International Market (1977; percentage)

Proportion of machine-building products in industry's gross output	Bulgaria	Hungary	GDR	Poland	Romania	USSR	Czechoslovakia
	27.7	30.7	32.0	33.3	31.6	25.2	33.7
Proportion of machinery and equipment in exports to CEMA's international market	50.1	47.1	63.2	55.7	36.1	25.9	60.2

Sources: EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV No 1, 1979, p 56; and VNESHNYAYA TORGOVLYA No 2, 1979, p 3.

The CEMA countries currently supply one another with up to 76 percent of their machine-building output exports and on this basis satisfy up to 64 percent of machinery, equipment and means of transportation import requirements. There has been an increase here in the degree of the CEMA

FOR OFFICIAL USE ONLY

countries' machine building in the division of labor. The correlation of the average annual rate of increase in reciprocal exports of machine-engineering products and machine-building products was 1.66 in 1971-1977 compared with 0.82 in 1966-1970, and the proportion of machinery, equipment and means of transportation exported to CEMA's international market in the gross machine-building product rose to two-fifth in Bulgaria, Hungary and Czechoslovakia and to approximately one-half in the GDR. A considerable proportion of national economic implements of labor requirements is satisfied on the basis of supplies from the CEMA countries. In particular, up to 40 percent of the USSR's new ship and truck requirements, up to 35 percent of its passenger car and 12 percent of its bus requirements, 33 percent of its installed rolling equipment requirement and 50 percent of its need for equipment for the automatic telephone stations about to be commissioned will be covered in the current five-year plan thanks to machine-engineering product imports from the CEMA countries.¹

In the current five-year plan, as in the foregoing period, the foreign trade in machinery and equipment among the CEMA countries is characterized by increasing preferential growth compared with the growth of machine-building production and reciprocal commodity turnover as a whole. The volume of reciprocal machinery and equipment exports will be in excess of R90 billion compared with R52 billion in 1971-1975 and R27 billion in 1966-1970. In 1980 the proportion of machinery and equipment in the trade of Bulgaria with the CEMA countries will amount to 55 percent, in that of Hungary to 57 percent, the GDR to 66 percent, Poland 56 percent, Romania 51 percent, the USSR 42 percent and Czechoslovakia 58 percent. This growth in trade in machine-engineering products will be secured to a considerable extent by the development of production specialization and cooperation. This sector is responsible for over 700 bilateral and multilateral agreements on production specialization and cooperation or more than 60 percent of all such agreements concluded within the CEMA framework.

The exchange of specialized machine-building products has currently become the most dynamic part of the fraternal countries' reciprocal exchange. Thus in the period 1971-1977 the volume of reciprocal exports of these products had an annual growth almost twice that of the reciprocal supplies of machine-engineering products and reciprocal exports as a whole. Whereas at the start of the last five-year plan reciprocal supplies of specialized machine-building products of the CEMA countries constituted 17.7 percent of the total exchange of the sector's products, in 1978 they constituted over 40 percent and by the end of the present five-year period will amount to almost 50 percent (see table 4) according to certain estimates. Thus a strengthening of the interconnection of machine-building works is occurring in the CEMA countries. Power truck and motor truck assembly in Bulgaria, bus assembly in Hungary, ship building in the GDR and Poland and chemical machine building in Poland and the GDR and the production of large-capacity trucks in the USSR and Czechoslovakia, oil-production equipment in Romania and the USSR and a number of groups of heavy machine building in the USSR have been formed into specialized sectors. Currently Bulgaria and the USSR

FOR OFFICIAL USE ONLY

account for almost 100 percent of the electric telfers manufactured in the CEMA countries, Poland and the USSR for over 90 percent of the excavators, Hungary and the USSR for approximately 75 percent of the buses, Romania and the USSR for 97 percent of blast furnace equipment and the USSR for over 90 percent of petroleum equipment.

Together with this, certain countries are cutting back or winding up exports of a number of products in respect of which they had previously occupied an important place in the international market (for example, Bulgaria--mining and petroleum equipment, railroad rolling stock and agricultural machinery (except for tractors); Hungary--metallurgical and lifting-transportation equipment, equipment for light industry, railroad rolling stock (except for diesel trains) and ships and ship equipment; the GDR--construction materials industry equipment and tractors; Poland--petroleum equipment, trucks and buses; Romania--trucks, ships and ship equipment; and Czechoslovakia--lifting-transportation equipment, ships and ship equipment, buses and others).

The volume of the commodity turnover of computers in accordance with concluded trade agreements will have increased from R3 billion in 1971-1975 to R8.7 billion in 1976-1980 and their proportion of the reciprocal trade in machinery and equipment will have risen from 2.9 percent to 5 percent in this same period.²

Table 4: Proportion of Specialized Products in Reciprocal Exports of the Most Important Types of Machinery and Equipment (percentage)

Sectors and Types of Machine-Building Product	1975	1977
Reciprocal exports of machinery and equipment as a whole including:	22.8	30.0
metal-cutting machine tools	19.3	40.7
electrical-engineering equipment	10.7	34.0
chemical, timber and paper and construction equipment	14.4	29.9
tractors and agricultural machinery	33.3	54.9
ball bearings	0.6	88.1
trucks	3.4	43.0

Source: EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV No 2, 1979, p 104.

In the course of implementation of the DTsPS the trade in machinery and equipment will, as before, determine the structure and dynamics of all trade among the CEMA countries. This ensues from the fact that the fulfillment of all programs depends to a decisive extent on cooperation in this sphere.

Measures are currently being implemented within the framework of the DTsPS in the sphere of machine building, which was approved at the 32d CEMA Session, aimed at the development of the scientific and production base for the qualitative reorganization of machine building itself, that is, machine-tool and instrument building, and also at surmounting such apparent

FOR OFFICIAL USE ONLY

shortcomings as the excessively extensive list of machine-building products which is maintained in the supplier-countries, the low quality of reciprocally supplied products, the slow renewal of the list and assortment of the machinery and equipment supplied to the mutual market and the continuing shortage of modern types of equipment, particularly implements of labor, which is now frequently covered by purchases in Western countries.

Fuel and raw material (nonfoodstuffs) commodities traditionally occupy an important place in the trade structure among the CEMA countries after machinery and equipment. The proportion of this group of products in the CEMA countries' reciprocal exports was approximately 26 percent in 1977. The high proportion of raw material commodities is determined by the fact that, as distinct, for example, from the Common Market countries, the CEMA countries satisfy their needs of the most important types of these commodities on the basis of domestic production and reciprocal exchange. In 1977 reciprocal supplies covered the CEMA countries' import requirements: 95.8 percent in coal, 94.4 percent in coke, 74.7 percent in crude petroleum, 74.4 percent in iron ore, 77.7 percent in manganese ore, 94.8 percent in pig iron, 63.5 percent in rolled nonferrous metals, 81.1 percent in copper, 87.4 percent in aluminum and 76.4 percent in cotton. The rational solution of the fuel-raw material problem in the CEMA community under the conditions of the energy and raw material crisis which erupted in the world economy in the 1970's is striking evidence of the advantages of socialism as a social system and as a world system.

Poland exports coal, copper, zinc and sulfur, Hungary exports bauxite and alumina, Romania petroleum products, Czechoslovakia coal and coke, Bulgaria zinc and lead, Mongolia fluorspar and tungsten concentrate and the Republic of Cuba nickel-containing raw material and so forth to CEMA's international market. However, the main exporter of fuel-raw material commodities to the fraternal countries is the Soviet Union. In 1977 Soviet supplies of electric power to the European CEMA countries constituted approximately 68 percent of their total imports, of ore (iron, manganese and chrome) and cotton approximately 75 percent, oil and oil products 80 percent, natural gas 99 percent and so forth. In the current five-year plan supplies of power media alone from the USSR to the fraternal countries will amount to 815 million tons of conventional fuel of 1.45 times more than in 1971-1975.

At the same time, as A. N. Kosygin observed, at the 31st CEMA Session, the solution of the fuel-raw material problem in the socialist community demands a greater unification of the fraternal countries' efforts than in the past insofar as the traditional sources of minerals in the Soviet Union are gradually being exhausted, and the development of new deposits in the USSR's eastern and northern regions involves major national economic expenditure. According to available estimates, in the period 1971-1975 capital investments merely in supplies of fuel-power commodities from the USSR to the other CEMA countries amounted to R7.6 billion. In 1976-1980 they will already have reached R14 billion.³

FOR OFFICIAL USE ONLY

For the more even distribution of expenditure on the extraction and shipment of fuel and raw material the CEMA countries embarked in 1976 on the implementation of the Coordinated Multilateral Plan of Integration Measures, which was adopted at the 29th CEMA Session. In fulfillment of this plan the CEMA countries concerned have forwarded and are currently forwarding in respect of their several participation in the construction of a number of projects in extractive industry (gas, power engineering, asbestos, pulp, iron ore, nickel and others) advance supplies of construction materials and mechanisms and various production-engineering and auxiliary equipment and consumer goods.

The construction of a number of most important integration projects--the "Soyuz" gas-shipment system, the 750-kilovolt Vinnitsa (USSR)-[Al'bertirsh] (Hungary) power transmission line and the first stage of the Soviet-Mongolian "Erdenet" Copper-Molybdenum Mining-Enriching Combine--each of which is among the world's 10 biggest and most modern installations and enterprises, had been completed by the end of 1978. Thus the "Soyuz" gas pipeline is approximately 3,000 kilometers long and has a planned capacity of 28 billion cubic meters of gas a year. Five years after the commissioning of the gas pipeline natural gas supplies from the Soviet Union to the CEMA countries, which in the long term will constitute 15.5 billion cubic meters of gas a year in volume, will have increased by a factor of almost 3.5 compared with 1971-1975. With the commissioning of other integration facilities annual product supplies from the USSR will increase by 200,000 tons of pulp, 180,000 tons of asbestos, 9 million tons of ferrous raw material, 200,000 tons of ferroalloys and 6 billion kilowatts of electric power.⁴

The adoption and implementation of the DTsPS in the sphere of energy, fuel and raw material signify a further increase in the CEMA countries' interaction in the solution of an urgent national economic problem. The program proceeds, first, from the need for the maximum utilization of national raw material resources and the expansion of geological-prospecting work on the territory of the fraternal countries. Second, important significance is attached to reorganization of the production structure for the purpose of reducing energy and material consumption, which remains quite high in the economy of the CEMA countries. Thus if we take the index of the level of proportional energy expenditure per unit of finished social product in the FRG as 100 percent, it would be 152 percent in Bulgaria, the GDR and Poland, 145 percent in the USSR and Czechoslovakia and 114 percent in Hungary.⁵ The same may be said about the consumption of other raw materials also. In the solution of the problem of structural reorganization a big role has been assigned mutual cooperation and trade. Thus in the development of one of the CEMA countries' energy-consuming sectors--the chemical sector--the USSR, in accordance with a signed agreement, will expand the production of energy-consuming chemical products (ammonia, methanol and polyethylene) in exchange for low-bulk and less energy-intensive products (chemical plant-protection agents, dyes and other material for light industry) produced in other CEMA countries.

The task of the economical use of consumed raw material, in which the CEMA countries are observed lagging behind the developed capitalist countries, is

FOR OFFICIAL USE ONLY

also becoming urgent. It is planned in this connection to have increased the degree of petroleum refining to 60-65 percent in 1990 compared with the present 45-50 percent. There are similar urgent problems in other sectors of the industry of the fraternal countries. According to available data, machinery and equipment produced in the USSR exceed progressive models in relative weight by approximately 25 percent, as a result of which there is an annual overexpenditure of approximately 15 million tons of metal.⁶

Third, the creation by joint efforts to large-scale capacities for the production of the basic types of energy, fuel and raw material is envisaged as a most important measure of economic cooperation. Particular attention is being paid here to the accelerated development of nuclear power engineering. Several AES with a total capacity of 37 million kilowatts will have been built in the European CEMA countries and in the Republic of Cuba in the 1980's. This will make it possible to obtain annually approximately 250 billion kilowatt-hours, which constitutes almost 70 percent of summary electric power generation in these countries in 1977.⁷ In addition, it is planned to build on USSR territory with the several participation of interested CEMA countries two AES with a capacity of 4 million kilowatts each. Agreements were signed in June 1979 on the construction of one of them--the Khmel'nitskaya AES--and a 750-kilowatt power transmission line from there to [Zheshuv] (Poland).

It should be emphasized that the development of nuclear power engineering is supported by the corresponding material-technical base. It is planned to create on the basis of multilateral production specialization and cooperation large-scale capacities for the manufacture of equipment for the AES. Thus in the period 1976-1980 Czechoslovakia is allocating for this purpose over Kcs8 billion or 30 percent of total capital investments in heavy machine building.

Large-scale measures, including purchases in Western countries of equipment and technology not yet being produced in the socialist community countries, are being formulated for the successful fulfillment of other subprograms, particularly the creation of ferrous and nonferrous metallurgy facilities and raw material for the chemical and pulp and paper industries.

Fourth, there will be a further extension of scientific-technical cooperation in the fuel-raw material sectors, from geological prospecting through the development of techniques of procuring high-quality types of raw materials and goods which are still being imported in considerable quantities from Western countries (certain types of rolled ferrous and nonferrous metals and others).

Thus the DTsPS's measures in the sphere of energy, fuel and raw material envisage not only new directions of cooperation in the fuel-raw material complex but also outline paths of overcoming the existing shortcomings and difficulties in providing the economy of the CEMA countries with fuel-energy and raw material commodities.

FOR OFFICIAL USE ONLY

As experience shows, the activity of CEMA's international organizations also contributes to the rational provision of the economies of the CEMA countries with fuel-raw material commodities. Thus by the start of 1976 the interested countries had signed approximately 30 agreements on the specialization and cooperation of the production of metallurgical products on the basis of proposals formulated by "Intermetall." Reciprocal supplies thereof over and above the commitments ensuing from long-term trade agreements currently amount to over 3 million tons compared with 780,000 tons in 1964.⁸ The volume of reciprocal amounts of nonferrous metals and alloys supplied in the course of cooperation merely thanks to the use of spare production capacity and the exchange of the products produced therewith constituted 1,533,000 tons. This has made it possible to save approximately \$461 million through waiving purchases of these products on the markets of Western countries.⁹

The expansion of the trade in nonfood raw material among the CEMA countries is also connected with the more extensive introduction of the practice of barter exchange between them and the development of trade between organizations and departments engaged in material-technical supply. In 1978 the volume of reciprocal trade among the CEMA countries in industrial-engineering products released in the process of fulfillment of the national economic plans amounted to over R200 million or was 4.3 times more than in 1975.

Consumer goods--industrial consumer goods, food and raw material for its production--occupy a considerable place in the structure of trade between CEMA countries; they account for up to one-fifth of reciprocal commodity turnover. The fraternal countries currently meet up to two-thirds of import requirements in the above commodities on the basis of mutual cooperation, and the proportion thereof constitutes an appreciable amount of national market stocks in the majority of CEMA countries. In particular, in the USSR this indicator is the equivalent to no less than 15 percent¹⁰ for such commodities as furniture, footwear, ready-to-wear clothing, cloth, vegetables and fruit. Poland satisfies 10 percent of domestic requirements through imports of consumer goods, imports of consumer goods account for up to 19 percent of Hungary's retail commodity turnover and so forth.¹¹

As a result of the implementation of the DTsPS in the sphere of agriculture and food industry and to satisfy the CEMA countries' rational industrial consumer commodity requirements in the next decade the reciprocal exchange of consumer goods will play an increasing role in the accomplishment of the social tasks set by the fraternal parties to enhance the people's living standard and to improve the supply, enrich the assortment and increase the quality of the consumer goods circulating on the domestic market of the socialist countries.

The "industrial consumer goods" commodity group stand out primarily among consumer goods in respect of the relative significance and dynamics of the trade. The volume of trade in these commodities among the CEMA countries in 1977 amounted to almost R9 billion or was 2.1 times greater than in 1970.¹²

FOR OFFICIAL USE ONLY

In the 1970's the rate of increase in trade in consumer goods of 20-25 percent outdistanced analogous production indicators in the socialist community countries,¹³ and the proportion of these commodities in reciprocal trade amounted to over 10 percent. In a number of countries (Bulgaria, Hungary, the GDR, Poland and Czechoslovakia) this group of commodities occupied second-third place after the "machinery and equipment" commodity group in their exports to other socialist countries--from 10 to 20 percent. Yet these countries are the main suppliers of industrial consumer goods to CEMA's international market--over four-fifths of the reciprocal exports of the CEMA countries. Their main importer is the Soviet Union, which purchases approximately four-fifths of the ready-to-wear clothing, more than two-thirds of the furniture and two-thirds of the leather footwear.

At the same time the Soviet Union is the main supplier among the CEMA countries of consumer durables. Together with the USSR, other CEMA countries also export household equipment and appliances: the GDR--watches, cameras, radio receivers, household electrical appliances and washing and sewing machines; Hungary--refrigerators, television receivers, radio receivers and others; Poland--sewing machines, electric vacuum cleaners and others; and Czechoslovakia--motorcycles and motorized bicycles and others. The proportion of this group of commodities in the reciprocal trade in consumer goods is gradually increasing (to one-sixth in 1977), which is connected with the growth in the well-being of working people in the socialist countries.

At the same time the development trends of trade among the CEMA countries that have been revealed show that in light industry and other sectors producing consumer goods there are still major reserves for a further extension of the division of labor between CEMA countries. Thus the volume of the reciprocal exchange of consumer goods per capita is approximately 3-5 times lower in the majority of CEMA countries than in the developed capitalist countries.

The degree of export specialization, with the exception of individual works (producing leather footwear in Hungary, Poland and Czechoslovakia, medicines in Hungary and cloth in the GDR), remains low, particularly in the manufacture of consumer durables. The level of cooperation that has been achieved in this sphere of material production is still lower than in other sectors of processing industry.

As can be seen from the material of the 33d CEMA Session, the DTsPS for satisfying rational consumer commodity requirements is aimed at an increase in the quality of the manufactured goods and the gradual renewal and broadening of their assortment in accordance with the public's growing requirements. Taking into consideration the fact that the role of consumer durables (household electrical appliances, watches, cameras, sewing and washing machines and others) will increase even further in the population's consumption structure, a great deal of attention is being paid, along with the preservation of the areas of the division of labor for finished products which have justified themselves, to the formulation of joint production

FOR OFFICIAL USE ONLY

programs for assemblies, parts and components on the basis of their standardization and unitization. Approximately half of the measures contained in the DTsPS for the satisfaction of the CEMA countries' rational industrial consumer commodity requirements applies to these spheres of production.

As far as the other sections of this program are concerned, for ready-to-wear clothing and cloth, leather footwear and others, for example, it will be necessary, in accordance with the program, on the one hand to amalgamate efforts in the retooling of the sectors providing light industry with progressive technology and equipment and also high-quality raw material, including chemical fibers, progressive brands of dyes and artificial leather, and the extensive development of the assortment exchange of specialized products of the fraternal countries' light industry is proposed on the other.

Further, it is planned to organize closer contact between the organizations of the CEMA countries engaged in studying market conditions and the trends of the development of fashion and the design of clothing, footwear, furniture and so forth. The lagging in this sphere is an important reason for the expansion of purchases of consumer goods in Western countries and the unwarranted increase in the proportion thereof in the CEMA countries' total imports.

Food and gustatory commodities and the raw material for their production constitute a significant proportion of the CEMA countries' trade--their proportion constituted 9-10 percent of reciprocal commodity turnover in the 1970's on average. The volume of trade in these commodities had increased by a factor of 2.6 in 1977 compared with 1970 and constituted approximately R8 billion.¹⁴

The solution of the food problem and an improvement in the structure of the consumption of the main foodstuffs are being secured in the fraternal countries predominantly on the basis of self-reliance and the maximum utilization of favorable natural and other conditions. At the same time the CEMA countries are devoting a great deal of attention to the development of co-operation in the sphere of agriculture and food industry since it affords an opportunity for catering rationally on the one hand for the population's requirements on the basis of reciprocal exchange thanks to specialization in the production of products which has advantages over other countries and, on the other, thanks to imports, for supplying the domestic market with commodities which the countries do not produce or produce in insufficient quantities. For this reason a certain complementariness has been achieved among the agrarian sectors of the national economies, to which individual countries' share of aggregate exports of certain types of good to CEMA's international market testifies. Thus the main exporters of vegetable-growing and horticultural products and products processed therefrom are Bulgaria, Hungary and Romania (from 75 to 95 percent), of fish and fish products the USSR (up to 78 percent), poultry-breeding products Bulgaria, Hungary and Poland (up to 95 percent) and livestock-raising products Hungary, Mongolia and Bulgaria (up to 75 percent).

FOR OFFICIAL USE ONLY

As the data of table 5 show, the CEMA countries' reciprocal trade in food and gustatory commodities plays a decisive part in satisfaction of the import requirements of the GDR, Poland, the USSR and Czechoslovakia, which account for up to 95 percent of the imports of these commodities from the community countries. The development of agriculture and the food industry with the more extensive employment of mutual cooperation is having a positive effect on the countries' trade. Although the rate of growth in trade in food products in the 1970's lagged behind the rate of growth in reciprocal trade as a whole, it was to a lesser extent than in the 1960's.

Table 5: Proportion of Imports From the CEMA Countries in the Total Imports of Food and Gustatory Commodities of Certain CEMA Countries (1978; percentage)

	GDR	Poland	USSR	Czechoslovakia
Canned vegetables	92	96	100	94
Processed fruit & berry products	65	45	--	49
Cigarettes & cardboard-mouthpiece cigarettes	98	64	97	90
Wine from grapes	58	39	17	79
Vegetable oil	59	35	--	80
Fresh vegetables	84	96	56	88

Sources: "Vneshnyaya trgovlya SSSR v 1978" [The USSR's Foreign Trade in 1978], Izdatel'stvo Statistika, 1979, pp 93-95 and the CEMA countries' foreign trade statistical handbooks.

Despite the fact that the policy of catering for each country's basic food product requirements on the basis mainly of domestic production is being maintained in the CEMA countries, reciprocal supplies of these commodities will, as envisaged in the DTsPS in the sphere of agriculture and food industry, play an increasing part in the upsurge of the population's living standard. Its realization will be facilitated to a considerable extent by the fact that it takes account of the positive trends which appeared in the 1970's in the CEMA countries' cooperation and trade in connection with the development of the process of agrarian-industrial integration. It is a question of an acceleration in the reciprocal trade in tractors and other agricultural machinery, chemical fertilizers, herbicides, toxic chemicals, planting material and other means of production for agriculture and also equipment for the food industry. The proportion of these commodities in the CEMA countries' reciprocal supplies of agrarian-industrial products has increased to one-third compared with one-fifth in the 1960's. In the current period the task is to climb to a higher rung of cooperation in this sphere, particularly to the creation of a machinery system providing for the mechanization of agricultural sectors, including the shipment and processing of agricultural products.

FOR OFFICIAL USE ONLY

The strengthening of agriculture and the food industry is important because, as experience attests, the possibilities of an increase in the production of grain and livestock-raising and other main agricultural products and the intensification of agricultural production in the fraternal countries depend on this to a decisive extent. Together with this, we still have the problem of the CEMA countries' more precise specialization in the production of certain types of agricultural product in accordance with the climatic, soil and other conditions which exist in each country and also of the stimulation of exports of these products to CEMA's international market through an improvement in the cooperation's price and credit mechanism.

There are also possibilities of an increase in the exchange of foodstuffs within the socialist community in the further extension of the practice of the conclusion of long-term agreements. For example, in accordance with a long-term agreement between Hungary and the USSR for 1976-1990, Hungarian supplies of fresh fruit in 1990 will have increased 40 percent compared with 1975, those of canned vegetables and fruit 45-50 percent and wines from grapes 65 percent.¹⁵

Commodity-exchange transactions between different departments and trading organizations of the CEMA countries should be expanded more actively than at present in the sphere of foreign trade relations. Even now the volume of trade conducted merely along fraternal country ministry of foreign trade and consumer cooperative society lines has risen to R800 million and constitutes 4-10 percent of CEMA country imports of consumer goods, and up to 30 percent of Bulgaria's imports.¹⁶ The utmost development of this form of trade will make it possible to satisfy more fully the population of the community countries' need for high-quality consumer goods.

An analysis of the trends and prospects of the development of trade among the CEMA countries shows that the large-scale economic measures being implemented in the course of realization of the DTsPS, that is, in the sphere determining the pace and structure of trade, will make it possible to appreciably increase the efficiency of reciprocal foreign trade relations and enhance their role in the accomplishment of the urgent national economic tasks of the socialist community countries.

FOOTNOTES

1. See EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV No 1, 1979, pp 7, 8.
2. See PLANOVOYE KHOZYAYSTVO No 6, 1976, p 31; and VNESHNYAYA TORGOVLYA No 2, 1979, p 3.
3. Estimated from the data of PLANOVOYE KHOZYAYSTVO No 8, 1976, p 65 and No 2, 1978, p 133.
4. See EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV No 2, 1978, p 63.

FOR OFFICIAL USE ONLY

5. Estimated from the data of VOPROSY EKONOMIKI No 5, 1979, p 96.
6. See VOPROSY EKONOMIKI No 7, 1979, p 36.
7. Estimated from the data of KOMMUNIST No 9, 1979, p 25 and EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV No 1, 1979, p 70.
8. See Ibid., No 2, 1978, p 53; VNESHNYAYA TORGOVLYA No 7, 1977, p 28; and PRAVDA, 24 March 1979.
9. See EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV No 6, 1978, p 61.
10. See PLANOVOYE KHOZYAYSTVO No 1, 1979, p 11.
11. See BIKI, 14 March 1978.
12. Estimated from the data of VNESHNYAYA TORGOVLYA No 2, 1977, p 24 and the CEMA countries' foreign trade statistical handbooks.
13. See EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV No 2, 1977, p 11.
14. Estimated from the data of VNESHNYAYA TORGOVLYA No 2, 1977, p 28 and on the basis of national foreign trade statistical handbooks.
15. See VNESHNYAYA TORGOVLYA No 4, 1977, p 19.
16. See EKONOMICHESKOYE SOTRUDNICHESTVO STRAN-CHLENOV SEV No 3, 1977, p 83 and No 2, 1978, p 38 and VNESHNYAYA TORGOVLYA No 2, 1977, p 29.

COPYRIGHT: Izdatel'stvo "Pravda", "Voprosy Ekonomiki", 1979

8850

CSO: 1823

END